KEY POINTS FOR REVISION OF INCOME TAX BEFORE EXAM

INCOME FROM HOUSE PROPERTY

Notional basis:-

Income from house property is the only head of income which is chargeable to **tax on notional basis.**

Buildings include:-

Buildings include residential buildings as well as factory buildings, offices etc. and land appurtenant means land connected with the building like parking, garden etc. Mere land can not constitute building. **Income from letting out of vacant land is taxable under the head "Income from other sources.**

Meaning of owner:-

Assessee must be the owner of the building. Owner includes **legal owner, beneficial owner and deemed owner.**

Building on leasehold land:-

The person who owns the building need not also be the owner of the land upon which it stands. **Therefore building constructed on leasehold land shall be covered under this head.**

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Sub letting of house property:-

Sub letting of house property is not taxable under this head but taxable under the head **income from other sources.**

Property held as stock in trade:-

If property is held as stock in trade and given on let out basis, income from such property is assessable under this head. **However if property is used for assessee's own business & profession then it is not taxable under this head.**

Taxability of employees' quarters:-

If an employer builds quarters **for residential use by his employees and the letting out of these** quarters is considered as **incidental to his business,** the income from such property is not taxable under this head, because the property in this case is considered to be used by the owner for his own business. It shall, therefore, be taxed as business income.

Display of advertisement hording:-

Rent on account of **display of advertisement hoarding** on the roof of the building shall be taxed as **'Income from Other Sources'** because hoarding on roof of building cannot be treated as part of the building.

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Building owned by the partner used by the partnership firm:-

When a partner gives his property for use by the partnership firm for the purpose of carrying on business of the firm, then it will be treated as use by the partner for the purpose of his business and therefore, the income from such property shall not be charged to tax under this head.

Incomplete units & temporary structure:-

Buildings do not include incomplete units and temporary structure.

House property situated in foreign country:-

The income from house property situated in foreign country shall be computed similar to the properties situated in India. **However, the taxability of such buildings is based on the residential status of the assessee.**

Taxability of hotel building:-

If any person has any hotel building which has been let out, income from such hotel building shall be taxable under the head house property but if he is running the hotel business or he is running the business of providing paying guest accommodation, income shall be taxable under the head Business/Profession.

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Similarly, if he is engaged in the business of warehousing, income is taxable under the head Business/Profession.

Transfer of house property to spouse or minor child:-

If any house property by an individual to his or her spouse and to minor child otherwise than for **adequate consideration**, the transferor is deemed to be the owner of the transferred property. However transfer to spouse is is in respect of an agreement to live apart or to minor married daughter than transferor is nor consider as deemed owner.

Allowability of municipal taxes :-

Municipal taxes in respect of house property are allowed upon **actual payment** and interest on borrowed capital shall be allowed on **accrual basis –** irrespective of method of accounting.

Standard deduction:-

30% standard deduction is allowed in respect of repairing, insurance, and depreciation etc. of house property. **Deduction is available irrespective of actual amount incurred.**

Taxability of SOP:-

The Gross Annual Value of any One Self Occupied Property is Nil. No Deduction in respect of Municipal

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Taxes is to be allowed. However only Interest on Capital borrowed will be allowed as a deduction. **Therefore the final result from Self-Occupied Property is Either Nil or negative.** Maximum interest allowable against SOP shall be Rs. **2, 00,000** (subject to condition) or Rs. **30,000.**

The benefit of exemption of one self-occupied house is available only to an individual/HUF.

Allowability of pre construction interest:-
Interest includes Prior Period Interest also. Prior Period Interest shall be allowed in **five equal instalments commencing from the financial year in which the property was acquired or construction was completed.**

Interest on unpaid interest:-
Interest on unpaid interest shall **not be allowed as a deduction.** However, **i**nterest on any Fresh Loan taken to repay the existing loan **shall be allowed as a deduction.**

Part of the house property:-
If any house property is divided into different portions, every portion shall be considered to be a separate house and income shall be computed accordingly. There is no need to treat the whole property as a

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single unit for computation of income from house property.

Deemed let out property:-

Where the individual/HUF owns more than one property for self-occupation, then the income from any one of such property, at the option of the assessee, shall be computed under the self-occupied property category and its annual value will be nil. The other self-occupied/unoccupied properties shall be treated as **"deemed let out properties"**.

Interest paid outside India:-

Interest chargeable under this Act which is payable outside India shall not be deducted if –**tax has not been paid or deducted from such interest.**

Taxability of unrealised rent:-

Unrealised rent which was **earlier allowed as deduction** received subsequently recovered shall be taxable as income from house property in the year in which it is received. 30% of standard deduction is available against receipt of such unrealised rent.

Taxability of arrears of rent:-

Where the assessee receives any amount by way of arrears of rent in respect of any property, the amount

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so received shall be **chargeable to tax under the head "Income from House Property".**

Property owned by co –owner:-

Where property is owned by two or more persons, whose shares are definite and ascertainable, then the share income of each such co-owner should be included in their **individual assessment.** However if share of co –owner is **unascertainable,** than income shall be assessed **in the hands of AOP.**

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